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**Financial Institutions &  
Insurance Committee**

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**ESSB 5275**

**Brief Description:** Prohibiting the use of consumer credit histories for personal insurance renewal decisions.

**Sponsors:** Senators Fairley, Benton, Regala, Kline, Franklin and Mulliken.

**Brief Summary of Substitute Bill**

- Adds definitions of "prior credit history" and "updated credit history."
- Prohibits an insurer from using a consumer's updated credit history at the time of renewal to determine premium if the updated credit history is less favorable than the prior credit history.
- Allows an insurer to use the prior credit history or other factors to determine premium increases at renewal.
- Delays the effective date until December 31, 2005.

**Hearing Date:**

**Staff:** Jon Hedegard (786-7127).

**Background:**

An insurance score is a number generated via a computer program that analyzes the data in an individual's credit report. The computer program uses an algorithm to reduce credit report data to a single numerical score. Generally, insurance scores are calculated either by insurers using their own computer model or by third-party vendors who contract with insurers to do credit score calculations. In 2002, Washington State passed a law limiting the ways in which a credit history or an insurance score can be used by insurers in underwriting and rating personal insurance.

Insurance scoring models.

Insurers may use credit history to determine premiums, rates, or eligibility for coverage unless the insurers has filed the insurance scoring models with the Insurance Commissioner.

Credit information that may not be used by insurers.

There are certain types of credit history information that an insurer can not consider in rate setting or use to deny coverage, including:

- an absence of credit history;
- the number of credit inquiries;
- credit history related to medical care;
- entries related to the initial purchase or finance of a house or car;
- use of a particular type of credit, debit, or charge card; or
- the dollar amount of a consumer's available credit.

#### Applicants.

An insurer is permitted to consider credit history in the evaluation of a new customer applying for insurance. Credit history must be considered with other substantive underwriting factors. An offer of placement with an affiliate insurer does not constitute a denial of coverage.

#### Cancellation and non renewal.

An insurer's decision to cancel or not renew an existing policy of personal insurance may not be based on an insured's credit history . However, an insurer may use credit history as the basis for placing an insured with another company affiliated with the insurer.

#### Notice to the consumer.

An insurer that takes any adverse action against a consumer based on credit history must provide the consumer with written notice. The notice must identify those aspects of the consumer's credit history that played a significant role in the decision leading to the adverse action. The insurer must also inform the consumer that the consumer is entitled to a free copy of his or her credit report. An insured is provided with certain remedies if his or her insurance coverage is adversely affected by an inaccurate credit history.

#### **Summary of Substitute Bill:**

Adds definitions of "prior credit history" and "updated credit history."

Prohibits an insurer from using a consumer's updated credit history at the time of renewal to determine premium if the updated credit history is less favorable than the prior credit history.

An insurer is not prohibited from using the prior credit history or other factors to determine premium increases at renewal.

The effective date is delayed until December 31, 2005.

**Appropriation:** None.

**Fiscal Note:** Requested on March 16, 2005.

**Effective Date:** The act takes effect December 31, 2005.